



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2009 Biennium

Bill #	HB0159	Title:	Increase employer contribution rates for PERB systems
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Primary Sponsor:	Lambert, C.	Status:	As Introduced
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Retirement Systems Affected:

<input type="checkbox"/> Teachers	<input checked="" type="checkbox"/> Public Employees	<input type="checkbox"/> Highway Patrol	<input type="checkbox"/> Police
<input checked="" type="checkbox"/> Sheriffs	<input type="checkbox"/> Firefighters	<input type="checkbox"/> Volunteer Firefighters	<input checked="" type="checkbox"/> Game Wardens
		<input type="checkbox"/> Judges	

Check the box if "Yes".

- ☒ Has this legislation been reviewed by the legislative interim committee?
- ☒ Has the cost of this legislation been calculated by the system's actuary?
- ☒ Does this legislation include full funding for any benefit revisions?

Public Employees Retirement System (PERS)

	July 1, 2006 Current System	Impact of Changes
Present Value of Actuarial Liability	\$3,919,313,000	\$0
Present Value of Actuarial Assets	\$3,459,084,000	\$0
Present Value of increased contributions	\$0	\$171,496,000
Lump Sum Equivalent Reduction in the Unfunded Actuarial Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)	* \$460,229,000	(\$171,496,000)
Amortization Period of AAL	does not amortize	30
*Including PCR UAL of \$18,754,000		

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Employee Contribution Rate	6.90%	6.90%	6.90%	6.90%	6.90%
State & Univ Employer Contr Rate	6.90%	7.46%	7.46%	8.03%	8.03%
Local Govt Employer Contr Rate	6.80%	7.36%	7.36%	7.93%	7.93%
State Contr Rate for Local Govt	0.10%	0.10%	0.10%	0.10%	0.10%
School Employer Contr Rate	6.80%	6.80%	6.80%	6.80%	6.80%
State Contr Rate for Schools	0.10%	0.66%	0.66%	1.23%	1.23%
TOTAL Contribution Rate**	13.80%	14.36%	14.36%	14.93%	14.93%

**The employer contribution rates are based on the rates applicable to the different employer types.

Sheriffs' Retirement System (SRS)

	July 1, 2006 Current System	Impact of Changes
Present Value of Actuarial Liability	\$171,841,000	\$0
Present Value of Actuarial Assets	\$163,003,000	\$0
Present Value of Increased Contributions	\$0	\$13,899,000
Lump Sum Equivalent Reduction in the Unfunded Actuarial Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)	\$8,838,000	(\$13,899,000)
Amortization Period of AAL	does not amortize	30

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Average Employee Contr Rate	9.245%	9.245%	9.245%	9.245%	9.245%
Employer Contribution Rate	9.535%	10.565%	10.565%	11.585%	11.585%
State Contribution Rate	0.000%	0.000%	0.000%	0.000%	0.000%
TOTAL Contribution Rate	18.780%	19.810%	19.810%	20.830%	20.830%

Game Wardens' and Peace Officers' Retirement System (GWPORS)

	July 1, 2006 Current System	Impact of Changes
Present Value of Actuarial Liability	\$64,183,000	\$0
Present Value of Actuarial Assets	\$58,813,000	\$0
Present Value of Increased Contributions	\$0	\$203,000
Lump Sum Equivalent Reduction in the Unfunded	\$5,370,000	(\$203,000)
Actuarial Accrued Liabilities (AAL) for Future		
Contributions Unfunded/(Funded)		
Amortization Period of AAL	31.4	30

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Average Employee Contr Rate	10.56%	10.56%	10.56%	10.56%	10.56%
Employer Contribution Rate	9.00%	9.04%	9.04%	9.04%	9.04%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	19.56%	19.60%	19.60%	19.60%	19.60%

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	\$1,289,753	\$1,345,125	\$2,803,027	\$2,929,163
General Fund (Statutory)	\$730,669	\$734,384	\$1,534,863	\$1,603,931
State Special Revenue	\$884,102	\$913,412	\$1,906,050	\$1,991,823
Federal Special Revenue	\$573,067	\$588,740	\$1,230,271	\$1,285,634
Other - Pension Funds	\$335,078	\$349,050	\$729,482	\$762,309
University Other	\$331,179	\$343,757	\$718,416	\$750,745
Revenue:				
Other - Pension Funds	\$6,460,306	\$6,718,233	\$14,010,970	\$14,638,338
Net Impact-General Fund Balance:	<u>(\$2,020,422)</u>	<u>(\$2,079,509)</u>	<u>(\$4,337,890)</u>	<u>(\$4,533,094)</u>

Description of Fiscal Impact:

This bill increases the employer contribution to the respective retirement systems to keep the systems actuarially sound, as required by the Constitution of Montana. In addition, it provides a statutory general fund appropriation to fund the school district share of the increased employer contribution.

FISCAL ANALYSIS

Assumptions:

For all systems:

1. This bill increases the employer contribution to the respective retirement systems to keep the systems actuarially sound, as required by the Constitution of Montana.
2. The increased contributions provided by this bill will sunset when the system's unfunded liability can be amortized over a period equal to or less than 25 years.
3. Membership will remain stable across all systems.
4. Salaries will increase at a rate of 4.25 % per year (actuarial assumption).
5. All calculations are based on the July 1, 2006 actuarial valuations.
6. The actuarial valuations are available on our website at <http://mpera.mt.gov/annualReports.asp>

For Public Employee Retirement System (PERS):

7. Employer contributions would increase from 6.9% to 7.46% effective July 1, 2007 and to 8.03% effective July 1, 2009.
8. For FY 2006 covered payroll for State Agencies totaled \$401,980,281; for FY 2006 covered payroll for Universities totaled \$91,509,494; for FY 2006 covered payroll for Local Governments totaled \$325,168,556; for FY 2006 covered payroll for School Districts totaled \$117,117,556.
9. The contribution rate increase for school districts will be paid by the State general fund. The general fund costs are funded through an appropriation included in the bill.
10. HB 159 creates a new statutory appropriation to fund the school district employer contributions rate increase.
11. 17-1-508, MCA requires analysis of the statutory appropriation relative to the guidance in 17-1-508 (2) MCA to be published in the fiscal note. The guidelines and analysis are as follows.
 - a. The fund or use requires an appropriation.
The use of the general fund for this purpose does require an appropriation.
 - b. The money is not from a continuing, reliable, and estimable source.
The general fund is a continuing, reliable, and estimable source.
 - c. The use of the appropriation or the expenditure occurrence is not predictable and reliable.
The above expenditures in HB 159 are reasonably predictable and reliable. A shortfall in a HB 2 appropriation may cause uncertainty for the actual amounts.
 - d. The authority does not exist elsewhere.
Authority does not exist elsewhere. Without this statutory appropriation county levies will increase by \$526,082 (72%) per year and HB 2 appropriation for retirement levies will increase by \$204,587 (28%) per year.
 - e. An alternative appropriation method is not available, practical, or effective.
The above alternative method causes a direct property tax increase. A shortfall in a HB 2 appropriation may add uncertainty to the actuarial analysis.
 - f. Other than for emergency purposes, it does not appropriate money from the state general fund.
This is a statutory appropriation from the general fund that is not an emergency, but it satisfies the constitutional provision for actuarial sound pension system.
 - g. The money is dedicated for a specific use.
This is a statutory appropriation designated for the specific purpose of providing the employer contribution increases for school districts to actuarially fund the PERS.
 - h. The legislature wishes the activity to be funded on a continual basis.
The funding needs to be continued in order to maintain actuarial soundness.

- i. When feasible, an expenditure cap and sunset date are included.

A sunset is included in the bill. Section 19-3-316(4) (a) The board shall periodically review the additional employer contribution provided for under subsection (3) and recommend adjustments to the legislature as needed to maintain the amortization schedule set by the board for payment of the system's unfunded liabilities.

(b) The employer contribution required under subsection (3) terminates on July 1 immediately following the system's actuarial valuation if:

(i) the actuarial valuation determines that the period required to amortize the system's unfunded liabilities, including adjustments made for any benefit enhancements enacted by the legislature after the valuation, is less than 25 years; and

(ii) terminating the additional employer contribution would not cause the amortization period as of the most recent actuarial valuation to exceed 25 years.

The employer contribution will be evaluated on a regular basis.

PERS Funding	FY 2008	FY 2008	FY 2009	FY 2010	FY 2011
	Current Law Required Contribution	Additional Contribution	Additional Contribution	Additional Contribution	Additional Contribution
State					
General Fund	\$10,882,422	\$1,006,231	\$1,050,793	\$2,196,157	\$2,294,984
State Special	9,481,583	876,704	905,720	1,892,955	1,978,138
Federal	6,172,886	570,769	586,350	1,225,470	1,280,617
Proprietary	3,607,463	333,560	347,472	726,216	758,896
<i>State Subtotal</i>	<i>\$30,144,353</i>	<i>\$2,787,264</i>	<i>\$2,890,335</i>	<i>\$6,040,798</i>	<i>\$6,312,635</i>
Montana University System					
Current Unrestricted - General Fund	\$1,522,027	\$262,306	\$272,268	\$569,040	\$594,647
Current Unrestricted - Other	2,016,960	46,289	48,047	100,419	104,938
Non Current Unrestricted - Other	3,323,276	284,857	295,676	617,962	645,770
<i>Montana University System Subtotal</i>	<i>\$6,862,263</i>	<i>\$593,453</i>	<i>\$615,991</i>	<i>\$1,287,421</i>	<i>\$1,345,355</i>
K-12 Schools					
General Fund (Statutory)	\$1,965,218	\$730,669	\$734,384	\$1,534,863	\$1,603,931
County Levy	5,313,565				
Federal	1,503,819				
<i>K-12 Schools Subtotal</i>	<i>\$8,782,602</i>	<i>\$730,669</i>	<i>\$734,384</i>	<i>\$1,534,863</i>	<i>\$1,603,931</i>
Local Government	\$23,988,334	\$1,946,879	\$2,029,621	\$4,269,547	\$4,451,000
Grand Total	\$69,777,552	\$6,058,265	\$6,270,331	\$13,132,629	\$13,712,921

For Sheriffs' Retirement System (SRS):

12. Employer contributions would increase from 9.535% to 10.565% effective July 1, 2007 and to 11.585 percent effective July 1, 2009.
13. For FY 2006 covered payroll for State Agencies totaled \$2,004,267; for FY 2006 covered payroll for Counties totaled \$32,237,655.

SRS Funding	FY 2008				
	Current Law Required Contribution	FY 2008 Additional Contribution	FY 2009 Additional Contribution	FY 2010 Additional Contribution	FY 2011 Additional Contribution
State					
General Fund	\$132,259	\$13,583	\$14,137	\$29,547	\$30,877
State Special	45,315	4,654	4,839	10,114	10,569
Federal	20,630	2,119	2,204	4,607	4,814
Proprietary	14,503	1,489	1,548	3,235	3,380
<i>State Subtotal</i>	<i>\$212,707</i>	<i>\$21,845</i>	<i>\$22,729</i>	<i>\$47,503</i>	<i>\$49,640</i>
Local Government	\$3,421,283	\$369,578	\$389,904	\$818,705	\$863,733
Grand Total	\$3,633,990	\$391,423	\$412,633	\$866,208	\$913,373

For Game Wardens' and Peace Officers' Retirement System (GWPOS):

14. Employer contributions would increase from 9% to 9.04 % effective July 1, 2007.
15. For FY 2006 covered payroll for State Agencies totaled \$24,893,056; for FY 2006 covered payroll for Universities totaled \$953,354.

GWPOS Funding	FY 2008				
	Current Law Required Contribution	FY 2008 Additional Contribution	FY 2009 Additional Contribution	FY 2010 Additional Contribution	FY 2011 Additional Contribution
State					
General Fund	\$1,671,652	\$7,449	\$7,735	\$8,083	\$8,447
State Special	711,707	2,744	2,853	2,981	3,115
Federal	44,894	179	186	194	203
Proprietary	6,602	29	30	31	33
<i>State Subtotal</i>	<i>\$2,434,855</i>	<i>\$10,401</i>	<i>\$10,803</i>	<i>\$11,289</i>	<i>\$11,798</i>
Montana University System					
Current Unrestricted - General Fund	\$79,262	\$184	\$191	\$200	\$209
Current Unrestricted - Other	13,987	32	34	35	37
Montana University System Subtotal	\$93,249	\$217	\$225	\$235	\$246
Grand Total	2,528,104	10,618	11,028	11,525	12,043

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Personal Services	\$3,413,179	\$3,540,084	\$7,387,248	\$7,719,674
Local Assistance	\$730,669	\$734,384	\$1,534,861	\$1,603,931
TOTAL Expenditures	\$4,143,848	\$4,274,468	\$8,922,109	\$9,323,605

<u>Funding of Expenditures:</u>				
General Fund (01)	\$1,289,753	\$1,345,125	\$2,803,029	\$2,929,163
General Fund (01) Statutory	\$730,669	\$734,384	\$1,534,861	\$1,603,931
State Special Revenue (02)	\$884,102	\$913,412	\$1,906,050	\$1,991,823
Federal Special Revenue (03)	\$573,067	\$588,740	\$1,230,271	\$1,285,634
Proprietary (06)	\$335,078	\$349,050	\$729,482	\$762,309
University Funds (Other)	\$331,179	\$343,757	\$718,416	\$750,745
TOTAL Funding of Exp.	\$4,143,848	\$4,274,468	\$8,922,109	\$9,323,605

<u>Revenues:</u>				
Other - Pension Funds	\$6,460,306	\$6,718,233	\$14,010,362	\$14,638,338
TOTAL Revenues	\$6,460,306	\$6,718,233	\$14,010,362	\$14,638,338

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$2,020,422)	(\$2,079,509)	(\$4,337,890)	(\$4,533,094)
State Special Revenue (02)	(\$884,102)	(\$913,412)	(\$1,906,050)	(\$1,991,823)
Federal Special Revenue (03)	(\$573,067)	(\$588,740)	(\$1,230,271)	(\$1,285,634)
Proprietary (06)	(\$335,078)	(\$349,050)	(\$729,482)	(\$762,309)
University Funds (Other)	(\$331,179)	(\$343,757)	(\$718,416)	(\$750,745)
Other - Pension Funds	\$6,460,306	\$6,718,233	\$14,010,362	\$14,638,338

Effect on Local Governments:

Local government include city and county governments, conservation districts, water and sewer districts, and other local government entities. Funding for these entities is a mixture of mill levies, fees and charges and other sources. Local governments may reduce other expenditures or increase revenue to cover these increased costs.

1. Local governments will fund the increased employer contributions.

Increase in Employer Contributions					
		FY 2008	FY 2009	FY2010	FY 2011
PERS	Local Government	\$1,946,879	\$2,029,621	\$4,269,547	\$4,451,000
SRS	Local Government	\$369,578	\$389,904	\$818,705	\$863,733

Long Range Impacts:

1. The statutory appropriation to pay the increased contribution for school districts to PERS by the State general fund is indefinite and will continue to increase as future salaries increase until the legislature chooses to repeal this provision.
2. To the extent the actual experience will vary from that assumed in the preparation of this fiscal note, projected cost will be less than or greater than shown.

Technical Notes:

1. The PERB will periodically review the additional employer contribution and recommend adjustments to the legislature as needed to maintain the amortization of the unfunded liability and the sunset provision for PERS, SRS, and GWPORS.

Sponsor's Initials

Date

Budget Director's Initials

Date